

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

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Last month's *Idaho Outlook* was devoted to new laws with an impact on future General Fund revenue flows. This month we turn back the clock and focus on the fiscal impacts of existing income tax credits, exclusions, and deductions. This analysis is made possible by income tax data for 2006 provided by the Idaho Tax Commission. In order to assure strict confidentiality, only summary data were made available to us; no data for individuals or businesses were accessed. Due to space limitations, we will cover only those items with the largest fiscal impacts. A complete description of all credits, exclusions, and deductions and their fiscal impacts is available in the FY 2009 *General Fund Revenue Book*, and an updated set of impacts will be published next January in the FY 2010 *General Fund Revenue Book*.

The fiscal impacts for tax credits and exclusions and deductions are calculated differently. Credit estimates are straightforward. This is because a tax credit reduces a person's tax liability. For example, if some has a tax liability of \$100 and they receive a \$10 credit, the fiscal impact is simply the \$10. It is harder to estimate the fiscal impact of an exclusion or deduction because it is a reduction to income, not the tax. To get the impact requires the additional step of applying the correct tax rate to the exclusion or deduction. For example, the impact of a \$100 corporate income tax deduction is \$7.60 ( $\$100 \times 7.6\%$ ) because Idaho has a flat corporate income tax rate. On the other hand, the state's individual income tax rate rises with income. As such, the fiscal impact of a \$100 individual income

tax deduction could vary between \$1.60 and \$7.80, depending on a person's tax bracket. Our estimates take into consideration the varying tax rates. They do not, however, take into account the interaction of the Idaho income tax with the federal income tax. In general, for those who itemize their deductions the federal income tax will absorb a portion of any Idaho income tax reduction due to the deductibility of Idaho income tax

Idaho grants a credit for taxes paid to other states. In 2006, this credit was worth \$58.4 million—the largest single credit. The next largest credit was the investment tax credit, which was valued at \$32.2 million. The state's grocery tax credit was worth \$27.8 million in 2006. It should be pointed out that this credit was made more generous during the 2008 Idaho legislative session, so its value will jump from 2007 to 2008. The fourth largest income tax credit of \$9.8 million is for donations to certain

youth and rehabilitation entities. The list of the top five fiscal impacts is rounded out by the \$4.3 million in credits to schools, libraries, and museums.

The fiscal impact of the state's capital gains exclusion in 2006 was \$70.6 million in reduced Idaho income tax—the largest of both this and the credit category. The exclusion with the second largest fiscal impact that year was the one for social security earnings worth \$39.2 million. The health insurance deduction, at \$11.2 million, had the third highest impact. The last two items on this list are both exclusions. The government interest exclusion was worth \$6.3 million. This exclusion is available to both individuals and corporations. All the other exclusions and deductions discussed here are only available to individual income tax payers. Last is the exclusion for certain retirement benefits that were valued at \$5.4 million.

### Fiscal Impacts of Selected Idaho Income Tax Credits, Exclusions, and Deductions in 2006

Description	Value (Millions)
Other States Tax Credit	\$58.4
Investment Tax Credit	\$32.3
Grocery Tax Credit	\$27.8
Youth & Rehabilitation Credit	\$9.8
Schools, Libraries, & Museum Credit	\$4.3
Capital Gains Exclusion	\$70.6
Social Security Exclusion	\$39.2
Health Insurance Deduction	\$11.2
Government Interest Exclusion	\$6.3
Retirement Benefit Exclusion	\$5.4

# Idaho General Fund Update

As of June 30, 2008

\$ Millions				
Revenue Source	FY 2007 Actual	FY 2008 Executive Estimates		FY 2008 Actual
		Jan. 2007	Feb. 2008 <sup>1</sup>	
Individual Income Tax	1,400.2	1,254.8	1,378.9	1,430.2
Corporate Income Tax	190.2	213.0	169.4	189.7
Sales Tax	1,077.5	1,196.9	1,166.0	1,142.5
Product Taxes <sup>2</sup>	22.4	32.1	26.8	26.8
Miscellaneous	122.3	111.0	120.9	120.7
<b>TOTAL GENERAL FUND<sup>3</sup></b>	<b>2,812.5</b>	<b>2,807.7</b>	<b>2,862.0</b>	<b>2,909.8</b>
<sup>1</sup> Executive estimate as adjusted for 2007 legislative action <sup>2</sup> Product Taxes include beer, wine, liquor, and cigarette taxes <sup>3</sup> May not total due to rounding				

General Fund revenue finished FY 2008 \$47.8 million (1.7%) higher than expected based on the February 2008 Executive Revenue Forecast. The month of June contributed a net of \$7.0 million to this strong finish. June's strength came from \$9.6 million more in corporate income tax receipts and \$4.6 million more in individual income tax receipts than were expected for the month. Two revenue categories partially offset this strength, with sales tax receipts coming in \$4.1 million below expectations for June and miscellaneous receipts coming in \$3.0 million short for the month. On a full fiscal year basis the largest shortfall came in the sales tax, which was \$23.5 million lower than expected. This was more than offset by individual income tax receipts that were \$51.2 million higher than expected, and corporate income tax receipts that were \$20.3 million higher than expected.

Individual income tax revenue was \$4.6 million higher than expected in June, and finished the fiscal year \$51.2 million above the February 2008 forecast. Instead of falling by 1.5% (per the February 2008 forecast), individual income tax receipts finished FY 2008 2.1% above the FY 2007

level. This outcome was due to filing collections that were \$3.4 million higher than expected in June and \$87.5 million higher than expected for the full fiscal year. The strength in filing collections was partially offset by refunds that came in \$15.8 million higher than expected for the fiscal year, and withholding collections that were \$19.1 million lower than expected for the fiscal year. On a positive note, after two consecutive months of withholding collections that fell below year earlier levels, June 2008 withholding collections grew by \$2.9 million relative to the June 2007 level. While still \$1.5 million lower than expected for the month of June, it is a big improvement from the actual versus predicted gaps of \$10.9 million in April and \$6.5 million in May.

Corporate income tax revenue was \$9.6 million above expectations in June and finished the fiscal year \$20.3 million above the February 2008 forecast. Instead of falling by 10.9% (per the February 2008 forecast), corporate income tax revenue actually fell by only 0.3% in FY 2008. Refunds were \$0.3 million lower than expected in June, but finished the fiscal year \$0.3 million above the target. Filing payments were \$2.0 million lower than

expected in June but finished the fiscal year \$4.7 million above the target. Estimated payments were \$10.4 million higher than expected for June and \$15.9 million higher than expected for the full fiscal year.

Sales tax revenue was \$4.1 million lower than expected in June, and finished the fiscal year \$23.5 million below the predicted amount. June was the sixth consecutive month in FY 2008 that had a year-over-year decline in gross sales tax receipts. Instead of growing by 0.8% (per the February 2008 forecast) normalized sales tax gross receipts actually fell by 1.2% in FY 2008.

Product taxes were essentially on target in June and for the full fiscal year. Miscellaneous revenues were \$3.0 million lower than expected in June but finished the fiscal year only \$0.2 million lower than expected for the full year. Within the miscellaneous category interest earnings and insurance premium tax each ended the full fiscal year \$2.6 million lower than expected, while unclaimed property receipts were \$3.1 million higher than expected for the fiscal year.

